

MINUTES OF THE REGULAR MEETING
OF THE HOUSING AND COMMUNITY DEVELOPMENT
CORPORATION OF HAWAII
HELD AT THEIR OFFICE AT 677 QUEEN STREET
ON THURSDAY, FEBRUARY 17, 2005,
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Housing and Community Development Corporation of Hawaii met for a regular meeting at 677 Queen Street, on Thursday, February 17, 2005 at 9:00 a.m.

The meeting was called to order by Chairman Charles Sted and, on roll call, those present and absent were as follows:

CALL TO
ORDER/
ROLL CALL

PRESENT: Director Charles King
Designee Rick Manayan
Designee Henry Oliva
Director Linda Smith
Director Charles Sted
Director Travis O. Thompson

Executive Director Stephanie Aveiro

EXCUSED: Director Francis L. Jung
Director Betty Lou Larson

Staff Present: Sandra Ching, Deputy Attorney General
Pamela Dodson, Executive Assistant
Janice Takahashi, Planner
Georgina Lopez, Housing Information Specialist
Patti Miyamoto, Compliance Officer
Tom Otake, Housing Development Section Acting Chief
Stan Fujimoto, Housing Development Specialist
Chris Sadayasu, Housing Development Specialist
Gary Umeda, Housing Inspector
Darren Ueki, Finance Manager
Marlene Lemke, Sales & Counseling Section Chief
Lloyd Fukuoka, Housing Loan Specialist
Lili Funakoshi, Hearings Officer
Mike Hee, Contracts Administration Section Chief
Sherry Noguchi, Chief Accountant
Virg DeMello, Special Assistant
Shirley Higa, Secretary to the Board

OTHERS: Marvin Awaya, Pacific Housing Assistance Corp.
Wils Choy, KMH, LLP

The Chairman declared a quorum was present.

QUORUM

Director Thompson moved, seconded by Director King

APPROVAL
OF
MINUTES -
1/28/2005

That the minutes of January 28, 2005 be approved as presented.

The motion was unanimously carried.

Staff’s recommendation was presented as follows:

That the Board of Directors accept the audited financial statements of the Banyan Street Manor Project for the fiscal year ending June 30, 2004.

Director King moved, seconded by Director Thompson

That staff’s recommendation be approved.

Executive Director Stephanie Aveiro explained that the Audit Subcommittee consisting of Directors Thompson and Sted met with the auditors to discuss the report.

Director Thompson commented that the audit reflected a fair description of the financial condition of the Banyan Street Manor project. He noted the highlights of the audit as follows:

- Net assets increased by 1.1%;
- Rental income increased by 5.9%;
- Investment income increased by 0.23%; and
- Management decreased the administrative/operating costs.

Director Thompson further stated that the auditors did excellent work as they pointed out areas that could be improved such as rental collection and the eviction process. However, since there has been a change in property management firms, it is hoped that the current management company implements the recommendations by the auditor.

There being no further discussion, the motion was unanimously carried.

Staff’s recommendation was presented as follows:

That the Housing and Community Development Corporation of Hawaii’s Board of Directors accept the audited financial statements for the fiscal year ending June 30, 2004.

Director Thompson moved, seconded by Designee Manayan

That staff’s recommendation be approved.

Executive Director Stephanie Aveiro introduced Wils Choy of KMH, LLP who performed the audit of HCDCH. Ms. Aveiro also stated that the Pre-Audit Subcommittee consisting of Directors Thompson and Sted, met with the auditor beforehand and reviewed the audit in detail.

Director Thompson expressed his satisfaction with the excellent and professional manner that the audit was conducted. Although the audit noted a significant decrease of \$343 million, in the corporation’s assets, two-thirds (2/3) of this amount was a result of redemptions of the Single Family Revenue Bonds which had matured. Therefore the corporation’s liabilities were reduced tremendously offsetting much of the loss in net assets. Director Thompson further noted that although there were increases in expenses, he was very satisfied with the overall financial condition of the corporation. The audit had mentioned the lack of a Chief Financial Officer (CFO) which when the position is filled, it is hoped that there will be a positive change.

Mr. Choy added that due to the lack of a CFO, one individual staff member has had to perform some of the duties and responsibilities of a CFO in addition to their own workload. This has diminished the effectiveness of the position but should

REQUEST
TO ACCEPT
THE
AUDITED
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OF THE
BANYAN
STREET
MANOR
FOR THE
FISCAL
YEAR
ENDED
6/30/2004

ACCEPT
THE
AUDITED
FINAN-
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OF THE
HOUSING
AND
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OF HAWAII
FOR THE
FISCAL
YEAR
ENDED
6/30/2004

be corrected once a CFO is retained and begins to perform well for the corporation.

Mr. Choy further stated that due to the time constraints, he thanked staff and the Audit Subcommittee for their assistance which allowed them to submit the audit in a timely manner.

Ms. Aveiro also acknowledged Chief Accountant Sherry Noguchi for her assistance and efficiency in submitting a required report to HUD one month ahead of schedule.

The Chair commented that the auditors did a good job considering the complex accounting principles and theories that were applied in the report.

Director Smith asked if HUD would have an opportunity to review the report with the auditor and/or staff. This would enable HUD to have a better understanding of the operations of HCDCH such as the transfer of \$15 million from the Dwelling Unit Revolving Fund (DURF) to the General Fund as a result of legislative action.

Ms. Aveiro noted that the audit is submitted electronically to HUD. There is no personal review of the audit between HUD and staff.

Director Thompson commented that he believed that it was important that HUD understood the financial document and would support having the appropriate personnel sent to the main HUD office to meet and discuss the audit report. He also encouraged staff to be proactive and suggested that a hard copy of the report be sent to Assistant Secretary Michael Liu of HUD's Office of Public and Indian Housing to keep him apprised of the corporation's ongoing efforts to meet HUD's requirements.

There being no further discussion, the motion was unanimously carried

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors approve an extension of the conditions to the DURF financing for the Senior Residence at Iwilei project as approved by the HCDCH Board on August 11, 2004, by six calendar months from February 28, 2005 to August 31, 2005, such that the DURF financing for the project is subject to approval of a revised financing plan by the HCDCH Board by August 31, 2005, subject to other terms and conditions deemed necessary by the Executive Director.

Director King moved, seconded by Designee Oliva

That staff's recommendation be approved.

Project Manager Stan Fujimoto reviewed the history of the project noting that the current request is to extend the deadline to meet the conditions of the DURF financing. Two legislative bills which allow DURF to be used for permanent financing is under consideration by the current legislature. Mr. Fujimoto stated that the developer has met one of the conditions which was to receive 201G zoning exemptions from the City and County of Honolulu.

Marvin Awaya, of Pacific Housing Assistance Corporation (PHAC) then explained that once the financing is in place, construction should take 24 months. The initial application for the development was submitted in 2002 which approved the project using DURF as a permanent loan. Extensions have been requested as the use for DURF financing for permanent financing has yet to be clarified. Although an application for permanent financing has also been submitted to the Rental Housing Trust Fund (RHTF) as well, it would be preferred to use DURF financing.

EXTENSION
OF
CONDITIONS
TO
DWELLING
UNIT
REVOLVING
FUND
(DURF)
FINANCING
FOR
THE
SENIOR
RESIDENCE
AT
IWILEI
PROJECT,
IWILEI,
OAHU,
HAWAII

Director Smith asked why was DURF preferred over financing from RHTF.

Mr. Awaya answered that the RHTF requires 10% of the units be designated or set aside for tenants whose share of the rent is 30% of their income. The 30% of the tenants’ income, is not enough to pay for the debt service. The remaining 90% of the tenants would therefore be paying for 100% of the debt service. On a long term basis, the rental income would not be able to pay for the operating expenses of the project. This requirement, however, is not imposed when DURF funds are used.

In response to Designee Manayan’s question, Finance Manager Darren Ueki stated that the RHTF has approximately \$18 million of which approximately \$10.7 million are uncommitted. Designee Manayan further asked if the proposed loan is part of the encumbered funds should the developer not be able to use DURF funds. Mr. Ueki answered that applications that are under current review by staff total approximately \$18 million. Staff anticipates additional funding for the next fiscal year, however, at the present time, there is no commitment for the project.

There being no further discussion, the motion was unanimously carried.

Staff’s recommendation was presented as follows:

That the HCDCH Board of Directors, authorize the Executive Director to execute a Construction Right of Entry and Grant of Easement for Anchor/Guy Wire over Waiahole Valley Agricultural Park and Residential Lots Subdivision Lot 1A.

Subject to:

- 1. Department of the Attorney General’s review and approval of the documents.
- 2. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.
- 3. TESINC, Verizon and HECO shall be responsible for all costs and expenses relating to the anchor/guy wire easement.

Project Coordinator Chris Sadayasu explained that as a result of a traffic accident, Verizon Hawaii, Inc. is requesting the Construction right of entry and easement in order to relocate an anchor and guy wire. The anchor and guy wire serve to stabilize the telephone pole in locations where the pole line changes direction.

As there was no questions, the motion was unanimously carried.

Staff’s recommendation was presented as follows:

That the HCDCH Board of Directors:

- 1. Approve the proposed Chapter 17-2000, Hawaii Administrative Rules and the repeal of Chapter 15-160, Hawaii Administrative Rules;
- 2. Subject to the Governor’s approval, authorize the Executive Director or her designated representative(s) to conduct public hearings on the adoption of Chapter 17-2000, Hawaii Adminis-

APPROVE
REQUEST
FOR
CON-
STRUCTION
RIGHT
OF ENTRY
AND
GRANT OF
EASEMENT
FOR
ANCHOR/
GUY WIRE
OVER
WAIAHOLE
VALLEY
AGRI-
CULTURAL
PARK
AND
RESIDEN-
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LOT 1A

APPROVAL
OF
PROPOSED
CHAPTER
17-2000
“RULES OF
PRAC-
TICE AND
PROCE-
DURE”,
HAWAII
ADMIN-

- trative Rules and the repeal of Chapter 15-160, Hawaii Administrative Rules;
3. Authorize the Executive Director to make any non-substantive amendments to the draft rules prior to the public housing; and
- a. Authorize the Executive Director to transmit Chapter 15-160, Hawaii Administrative Rules to the Governor for repeal; and
 - b. Authorize the Executive Director to transmit Chapter 17-2000, Hawaii Administrative Rules, to the Governor for final approval provided that no substantive amendments are made.

Chief Planner Janice Takahashi explained that staff is proposing to amend its rules to allow the Board to limit oral testimony to three minutes per person and restrict it to only items on the agenda.

Director Thompson commented that the Chairperson already has the authority to limit testimony if need be and that it could also be stated as such in the meeting notice. The three minutes as being proposed therefore need not be included in the rules.

Ms. Takahashi stated that for rule-making purposes, it would be preferred to state a suggested time limit. This would allow the public to respond to how much time they may be limited to in the meetings as compared to not stating any time limit which would be too broad for the public to comment on.

After discussion, the votes to approve staff’s recommendation as presented was as follows:

- AYES: Director Charles King
Designee Rick Manayan
Designee Henry Oliva
Director Linda Smith
Director Charles Sted
- NAY: Director Travis O. Thompson

The motion was carried.

Staff’s recommendation was presented as follows:

That the Board of Directors of the Housing and Community Development Corporation of Hawaii approve the revisions to Chapter 12 of the ACOP which includes the eviction procedures.

Designee Oliva moved, seconded by Director King

That staff’s recommendation be approved.

Compliance Officer Patti Miyamoto explained that the Admissions and Continued Occupancy Policy (ACOP) for the Federally Assisted Public Housing Program outlines procedures that staff can follow for its implementation regarding evictions and lease terminations.

APPROVAL
OF
REVISION
TO
CHAPTER
12 OF THE
ADMIS-
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AND
CONTINUED
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PANCY
POLICY
FOR THE
FEDERALLY
ASSISTED
PUBLIC

Ms. Miyamoto further explained that in the current Memorandum of Agreement (MOA) with HUD, one of the targets and strategies was to “revise ACOP to include PHA eviction procedures.” Should the Board approve staff’s recommendation to revise Chapter 12 of the ACOP, this would satisfy one of the requirements by HUD in the MOA. Chapter 12 was revised to streamline compliance with the approved administrative rules for evictions, HUD’s rules and the corporation’s rental agreement.

HOUSING
PROGRAM

Executive Director Stephanie Aveiro commented that the proposed revision is to maintain the procedures that are outlined in the administrative rules, PHA Plan, and ACOP identical to

There being no further discussion, the motion was unanimously carried.

Director King moved, seconded by Director Thompson

RECESS

That the meeting be in recess at 9:55 a.m.

The motion was unanimously carried

The Chairman reconvened the meeting at 10:05 a.m.

Finance Manager Darren Ueki explained that the original intent of the Rental Assistance Program (RAP) was to provide subsidies to owners of newly constructed or rehabilitated affordable rental housing projects. Tenants residing in these projects would pay 30% of their income toward their rent; the rental assistance subsidy would then pay for the remaining rental balance which can range from \$175 to \$250 per month.

FOR
INFORMA-
TION -
STATUS
OF
CURRENT
RENTAL
ASSIST-
ANCE
CONTRACTS
ADMINIS-
TERED
UNDER
THE RENTAL
ASSISTANCE
PROGRAM

Seventeen (17) projects or 1,437 units have participated in the program since its inception. The program is limited to having outstanding commitments at any one time to \$100 million; the estimated value of the current RAP commitments is \$93.5 million. Cash available for the RAP subsidy is approximately \$13.7 million with approximately \$52 million needed to fulfill all outstanding RAP contract obligations. Since its inception, the program has disbursed an average of approximately 62% of the maximum subsidy allowable due to various reasons such as tenants’ incomes increasing thereby decreasing the subsidy as well as the project owner’s failure to provide required documentation to receive the subsidy.

Mr. Ueki continued that over time, transfers of approximately \$19.5 million from RAP to the General Fund have been made. The program has also been amended to include \$11.5 million set aside for interim construction financing for rental projects (RARF). The RAP has temporarily stopped making new commitments due to the lack of funds.

Three RAP contracts will be expiring in 2005, with the earliest in April 2005. Tenants may have their out-of-pocket rents increased; be displaced due to inability to pay the increased rents; or possible loss of affordable housing of the entire project should the owners elect to convert the project to a market rate project.

Although staff has yet to receive notice from the RAP contract due to expire in April 2005, it anticipates it will receive notice in the near future. Staff would like general guidance from the Board as to what action it should pursue when the notice is received.

Director Smith noted that funds were transferred from the RAP to help fund the General Fund. She then asked if the corporation has any equity in the projects that the rents are being subsidized. Mr. Ueki answered that the Corporation has a share equity provision which is initiated once a project is sold, refinanced or prepayment

of the project mortgage loan is completed.

In response to Director Thompson as to the demand of the RARF, Mr. Ueki stated that there has been a continuous demand for the funds adding that the set-aside amendment of \$11.5 million is an internal policy which could be amended by the Board. Mr. Ueki noted that the Corporation has not requested of the Legislature for additional funding for the program as any excess funds due to interest or origination fees that are charged the developers revert back into the programs for the subsidy. The program is monitored by one staff person who is doing an excellent job despite the big workload.

Director Thompson noted that although the program provides affordable housing, no new developments have been awarded in the past five years.

Mr. Ueki answered that the decision to not extend the fund's commitment was probably based on the state's fiscal situation coupled with the \$100 million cap which the Corporation is soon approaching. Staff believes that the present time is a good time for discussion to seek the Board's advice on the program's future as it may soon have an estimated \$46 million remaining to award.

Executive Director Stephanie Aveiro commented that this is an excellent project based rent subsidy program.

Executive Director Stephanie Aveiro reported two highlights of the past month as follows:

- That the request for proposals for the development of vacant parcels in the Villages of Kapolei for affordable housing units has been released with a deadline to respond of April 29; and
- Continue discussions with the City & County of Honolulu to discuss the Section 8 program.

OFFICE
OF
EXECUTIVE
DIRECTOR

Chief Planner Janice Takahashi reviewed the latest legislative bills that are still active in the current legislative session. Director Smith commented that it is through the collaborative efforts by various state departments, Affordable Housing Task Force, and individuals, that the housing initiative bills are still active. Ms. Aveiro noted that the working group chairs for the Affordable Housing Task Force have made a concerted effort to attend all the housing hearings.

Ms. Takahashi continued her review noting that a wide range of bills which propose to lengthen the 201G process and allocate monies for the homeless population with stipulation that a part of it, or 20%, of the funds be dedicated to native Hawaiians.

Director Smith noted the importance of the bills by encouraging the Board members to attend the hearings and provide support to staff.

Compliance Officer Patti Miyamoto then addressed the Board regarding the Memorandum of Agreement (MOA) explaining that HCDCH is required to give its progress report to HUD by the 15th of each month. HUD in turn, is expected to give its feedback within two weeks or by the end of the month. However, HUD has not been able to meet their deadline thereby shortening the time for HCDCH to respond to its comments. This has been noted by staff in its progress report and in a recent meeting with local HUD officials. Director Thompson suggested that Assistant Secretary Michael Liu be made aware of this as well to ensure that he is continuously informed of the progress that HCDCH is making.

Ms. Miyamoto continued that in the meeting, HCDCH staff discussed how the targets and strategies are changed after the target in the MOA has been met. HUD responded that they would like HCDCH to continue the practice which is why they

did not indicate that HCDCH had met the target. After the discussion, HUD agreed to closing out several more targets and strategies of the MOA with the understanding that HCDCH would continue to maintain its level of performance.

Ms. Aveiro then reviewed the background of the Waiahole Waikane Valley subject where an agreement for the value of the leasehold premium is being negotiated. In December 2004 the HCDCH Board deferred action on the subject matter for 90 days. Staff was then directed to meet with the residents of Waiahole Waikane Valley Association and report back to the Board within 60 days. Staff met with the resident association who presented their terms that they believed was fair to both parties.

Ms. Aveiro continued stating that she had suggested to the Chairman that a subcommittee of the Board could work with staff in order to assist staff in its recommendation to the Board for decision making in March.

Finance Manager Darren Ueki commented that staff would like to receive guidance from the Board as to how much should the Corporation recoup from its initial costs, if any.

Chairman Sted then appointed Director Jung to the subcommittee and asked for any volunteers among the Directors. Director Smith stated that she would be willing to serve on the subcommittee if it was restricted only to determine a mechanism or formula for which the lessees would be able to buy the leasehold premium.

As there was no further discussion, Chairman Sted appointed Director Smith to join Director Jung on the subcommittee and to meet with staff to discuss the leasehold premium issue.

Ms. Aveiro then introduced Claudia Shay, Executive Director of the Self-Help Housing Corporation of Hawaii (SHHCH), Ms. Shay explained that the methodology that was presented to the Board from the SHHCH was based on actions by the Board or on the language of the lease agreement for the valleys; it was not based on anything else.

Ms. Shay added that there was a precedent set in the Waiamanalo self-help lots when it purchased its leasehold interest for a specific premium. This premium was based on the cost of the project that was still outstanding divided by the square footage of the lots which determined what the residents would pay.

Ms. Shay further stated that 3-4 years ago, the State had taken up the methodology of using the \$13.6 million of the cost of infrastructure and divided by the square footage of Waiahole Valley which resulted in \$0.74 per square foot. This was considered fair for the residential lots. However, when this was applied to the large acreage of the agricultural lots, this was not considered affordable for the agricultural lessees.

According to the agricultural lease agreements, an area of 7,500 sq. ft. is recognized as an area that someone would build a house within the larger agricultural lot. Based on this, the \$0.74 per sq. ft. was used to assess the premium for the residential lot. The square footage was then deducted from the total leasehold lot and then the remaining square footage was multiplied by 0.0023 (\$100 annual lease rent divided by square footage). This methodology is fair and affordable for those with agricultural lots.

The Chairman thanked Ms. Shay for the informative review on the subject.

Ms. Aveiro continued with her report by distributing worksheets showing the tenants accounts receivable broken down by months and by funding source.

Designee Manayan noted the large uncollectible amount for certain projects and

WAIAHOLE
WAIKANE
VALLEY
LEASEHOLD
PREMIUM
SUBCOM-
MITTEE

asked how this was allowed to happen. Compliance Officer Patti Miyamoto stated that staff is currently reviewing the data by each individual unit and should be able to report back to the Board as to how this occurred.

Director Thompson also commented that the management companies who collect less than what is expected should be held accountable.

(Director Smith left the meeting at this time - 11:45 a.m.)

Designee Oliva commented that the spreadsheet is a good start which provides a snapshot of who is doing a good job in collecting the rent.

Ms. Aveiro continued to review the various timelines and the plan to correct the safety issues at various projects, with the main focus on Kuhio Park Terrace (KPT). Due to the continuous breakdown of the fire safety equipment, staff will have the fire alarms pulls located inside the individual units.

Director Thompson asked if there are enough funds to simultaneously retrofit the units rather than one building at a time. Ms. Aveiro answered that there is 24-hour security and each unit has a fire extinguisher which has prevented past fires from spreading.

Ms. Aveiro continued that future staffing to include persons who would be able to assist in the daily operations/management policies in the accounting and property management areas are being actively pursued.

No reports from the Contracts or Audit Subcommittees.

CONTRACTS,
AND
AUDIT
SUBCOM-
MITTEES

Director Thompson reported his concerns that the budget worksheets will be impacted due to the recent departure of the budget analyst and the uncertainty when the position can be filled.

FINANCE
SUBCOM-
MITTEE

Director Thompson reported that the subcommittee has made progress by identifying areas that need technical assistance as well as additional services that could be subcontracted.

ORGANI-
ZATION
SUBCOM-
MITTEE

Director King moved, seconded by Designee Oliva

RECESS/
EXECUTIVE
SESSION

That the meeting be recessed for five minutes and then meet in Executive Session at 12:00 p.m.

The motion was unanimously carried.

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There being no further business to come before the Board, Director King moved,
seconded by Designee Oliva

ADJOURN-
MENT

That the meeting be adjourned at 1:30 p.m.

The motion was unanimously carried.

FRANCIS L. JUNG
Secretary

Approved: